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Thomas W. Hayes
Auditor General

February 23, 1987

P-639

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

Items 5180-151-001 and 6100-196-001 of the 1986 Budget Act direct the Auditor General's Office to review and verify the accuracy of the data collected for the Greater Avenues for Independence (GAIN) program. As required by the 1986 Budget Act, the State Department of Education (department) collected this data to identify the number of children receiving Aid to Families With Dependent Children (AFDC) who are in child care programs that are subsidized by the State. We were unable to verify the accuracy of the data submitted by the child care contractors; however, we determined that the child care agencies we visited have appropriate methods for collecting and reporting enrollment data. In addition, we were asked to evaluate the potential availability of subsidized child care services to the "working poor" who have not been GAIN participants. The data collected by the department shows that 75 percent of all subsidized child care is provided to the children of parents whose income was less than 84 percent of the state median income and did not receive AFDC payments when the children were enrolled in subsidized child care. Furthermore, the department has contracted with a private agency to determine and report on the statewide availability of child care services. This report is scheduled for release in February 1987.

Background

In 1985, the Legislature enacted Chapter 1025, Statutes of 1985, which established the GAIN program. This program, which is administered by county welfare departments, is designed to provide employment and training services to recipients of AFDC to help them become financially self-sufficient.

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Section 11320.3 of the Welfare and Institutions Code states that paid child care services are to be made available to every GAIN participant with a child under the age of 12. Furthermore, paid child care services are provided for at least three months for GAIN participants who have found employment that is not subsidized by a government agency.

The GAIN program, with certain exceptions, is mandatory for AFDC recipients and applicants with children age six or over and is voluntary for parents who are enrolled in school and have children under the age of six. County welfare departments are encouraged to use existing child care providers that are subsidized by the department. The counties may, however, contract with other public and private child care providers.

For fiscal year 1986-87, the Department of Finance estimated that, potentially, the department could receive approximately \$31 million in federal reimbursement for child care costs, and, as a result, the Department of Finance offset the department's General Fund allocation by \$31 million. According to the department, this estimate was based on the premise that the entire AFDC population currently receiving child care services subsidized by the department is eligible for federal reimbursement through participation in the GAIN program. The department has refuted this estimate, noting that final implementation of the GAIN program is up to two years away, that it is not mandatory that all AFDC recipients participate in the GAIN program, and that certain department programs will not be eligible for federal reimbursement. The department estimates that, in fiscal year 1986-87, it will be eligible for only \$2.1 million of federal reimbursement instead of \$31 million.

Scope and Methodology

To assess the accuracy of the data collected by the department and to ensure that the department met Budget Act requirements, we reviewed the department's methodology for surveying child care contractors. We also reviewed the types of child care programs that the department included in its survey and determined whether these programs would be affected by the GAIN program.

In addition, to verify the accuracy of the department's enrollment report, we first verified that the department correctly totaled the data received from the child care contractors. Finally, we visited 11 child care contractors to determine whether they had sent accurate data to the department. We were, however, unable to verify the enrollment

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files at these agencies because enrollments have changed since September 15, 1986, when the department conducted its survey, and we were unable to reconstruct these records. Instead, we determined whether the child care contractors had collected appropriate documentation to allow them to supply accurate enrollment data to the department. We visited the following child care contractors:

- The National Hispanic University in Alameda County
- Carquinez Coalition in Contra Costa County
- Redwoods United in Humboldt County
- Department of Children's Services in Los Angeles County
- Options, a Child Care and Human Services Agency in Los Angeles County
- Irvine Unified School District in Orange County
- Casa De Amparo in San Diego County
- Friends of St. Francis in San Francisco County
- Santa Barbara Family Care Center in Santa Barbara County
- West Valley Joint Community College in Santa Clara County
- Washington Unified School District in Yolo County.

These child care contractors have reported AFDC enrollments ranging from zero to over 1,000. We determined how each agency calculated enrollment figures, and we verified that the agencies were collecting sufficient documentation to determine whether a child's parents were receiving AFDC benefits.

To determine the availability of child care services for the "working poor," we interviewed department staff and the private agency with whom the department contracted to complete a study on the availability of child care services. We also reviewed the department's requirements for determining eligibility for subsidized child care. We were, however, unable to determine the effect of the GAIN program on the availability of child care because the GAIN program will not be fully implemented for at least two years.

Current AFDC Enrollment

When the GAIN program was established, the department had no current data on the number of children in subsidized child care programs who were receiving AFDC. To determine the current enrollment of AFDC children in subsidized child care, staff from the department met with representatives from the Department of Social Services and developed a questionnaire to send to child care contractors to determine the enrollment of children, as of September 15, 1986, whose parents received AFDC. The department sent this questionnaire to the agencies

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with whom it has 718 contracts to provide child care services and received 662 responses (92 percent). We reviewed the department's methodology for collecting enrollment data and found that it meets Budget Act requirements.

The department totaled the data it obtained from its survey and issued a report on December 3, 1986. The report shows that, at the time of the survey, a total of 68,676 children were enrolled in subsidized child care programs; 16,876 (25 percent) are the children of parents who receive AFDC; and 51,800 (75 percent) are children whose parents do not receive AFDC. A copy of the department's report is attached.

Four child care programs were not included in the department's report because these programs are not generally affected by the implementation of the GAIN program, and the State will not be able to obtain federal reimbursement for the costs of these programs. These programs are the school-age parenting and infant development program, whose enrollment is limited to high school students with infants, a group specifically exempted from GAIN participation; the state preschool program, which provides only 3.5 hours of child development services daily and requires parent participation; special programs for the severely handicapped; and the protective services (respite) program, which provides child care to neglected, abused, or exploited children.

To verify the accuracy of the department's report, we first determined whether the department correctly entered the information it received from the child care contractors. During this review, we found 28 data entry errors, which the department later corrected. During our visits to the 11 child care contractors, we determined that they require documents such as copies of a parent's AFDC grant award or proof of income or that they rely on the county welfare departments' determination of AFDC eligibility to verify that children are eligible for subsidized child care. These methods for collecting this documentation seem to allow the contractors to accurately determine whether a child's parent is receiving AFDC. We therefore conclude that the information submitted by the 11 child care contractors should be accurate, and if all child care contractors use similar methods to collect and report data, the statewide information also should be accurate.

According to the assistant director of the department's Division of Child Development, the majority of children in state-subsidized child care are under six years of age. Parents who are enrolled in school and who have children under the age of six are not required to participate in the GAIN program. Therefore, to make a more accurate

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estimate of potential federal reimbursement for child care services, the State needs data on the number of children that are over six years of age--data that were not collected in the department's initial survey.

Availability of Child Care

The 1986 Budget Act also requested that the Auditor General's Office determine the potential availability of child care for the "working poor" who have not been GAIN participants. Eligibility for subsidized child care is based on a family's size and income. To qualify for subsidized child care through the department, a family must have an income that does not exceed 84 percent of the median income for the State. The data collected by the department shows that 75 percent of all subsidized child care is provided to the children of parents whose income was less than 84 percent of the median income and who did not receive AFDC payments when the children were enrolled in subsidized child care. However, after initial enrollment, the family remains eligible as long as its income, adjusted for family size, does not exceed 100 percent of the median income.

As part of the implementation of the GAIN program, the department contracted with the California Child Care Resource and Referral Network (network) to complete a study of the availability of all types of child care in California. According to the executive director of the network, the study shows, by county, the availability of licensed child care throughout the State. The network study also shows the availability of child care at the infant, preschool, and school-age levels. The executive director told us that the network found that 30 percent of the licensed child care providers listed by the Department of Social Services were not providing child care during the network's survey. As a result, the network is recommending that the Department of Social Services improve its system to track child care providers. The results of the study, which were released on February 17, 1987, will be made available to all county welfare departments to aid in their placement of GAIN participants in child care programs. The network has also established a GAIN resource bank that identifies how counties that have implemented the GAIN program have developed child care resources. This information will also be made available to the counties.

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Conclusion

We determined that the child care contractors we visited have appropriate methods for collecting data to report the enrollment of AFDC children in their programs. In addition, the data collected by the State Department of Education show that 75 percent of all subsidized child care is provided to the children of parents whose income was less than 84 percent of the median income for the State and who did not receive AFDC payments when the children were enrolled in subsidized child care. In February 1987, a report will be released that shows the availability of all child care programs throughout the State.

Recommendation

We recommend that when the State Department of Education repeats its survey of child care contractors in March 1987, the department require data on the numbers of AFDC children both over and under the age of six. This information will allow the department to better estimate the level of federal reimbursement for child care costs.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Attachments: AFDC and Non-AFDC Enrollment in Child Care Programs
Subsidized by the State Department of Education

State Department of Education's response to the Auditor
General's report

**AFDC AND NON-AFDC ENROLLMENT IN
CHILD CARE PROGRAMS SUBSIDIZED BY
THE STATE DEPARTMENT OF EDUCATION
SEPTEMBER 15, 1986**

<u>County</u>	<u>AFDC Enrollment</u>	<u>Percent of Total</u>	<u>Non-AFDC Enrollment</u>	<u>Percent of Total</u>	<u>Total</u>
ALAMEDA	1,771	30	4,099	70	5,870
ALPINE	0	0	0	0	0
AMADOR*	0	0	0	0	0
BUTTE	117	41	165	59	282
CALAVERAS	4	9	42	91	46
COLUSA	11	14	68	86	79
CONTRA COSTA	820	47	928	53	1,748
DEL NORTE	20	47	23	53	43
EL DORADO	25	8	274	92	299
FRESNO	343	35	642	65	985
GLENN	19	17	96	83	115
HUMBOLDT	350	44	452	56	802
IMPERIAL	141	26	409	74	550
INYO	4	14	24	86	28
KERN	301	29	745	71	1,046
KINGS	31	27	84	73	115
LAKE	2	7	27	93	29
LASSEN	0	0	0	0	0
LOS ANGELES	4,270	19	18,404	81	22,674
MADERA*	0	0	0	0	0
MARIN	159	33	329	67	488
MARIPOSA	5	42	7	58	12
MENDOCINO	91	24	283	76	374
MERCED	101	30	240	70	341
MODOC	4	13	27	87	31
MONO*	0	0	0	0	0
MONTEREY	177	19	742	81	919
NAPA	133	35	247	65	380
NEVADA	30	30	71	70	101
ORANGE	292	19	1,207	81	1,499
PLACER	82	65	44	35	126
PLUMAS	8	20	33	80	41
RIVERSIDE	306	26	878	74	1,184
SACRAMENTO	851	26	2,452	74	3,303
SAN BENITO	0	0	0	0	0
SAN BERNARDINO	529	39	835	61	1,364
SAN DIEGO	1,171	25	3,545	75	4,716
SAN FRANCISCO	1,770	27	4,686	73	6,456
SAN JOAQUIN	230	27	613	73	843
SAN LUIS OBISPO	21	6	341	94	362
SAN MATEO	222	16	1,139	84	1,361
SANTA BARBARA	127	19	529	81	656
SANTA CLARA	914	21	3,411	79	4,325
SANTA CRUZ	255	25	781	75	1,036
SHASTA	89	29	221	71	310
SIERRA	0	0	0	0	0
SISKIYOU	30	33	60	67	90
SOLANO	141	31	312	69	453
SONOMA	283	30	662	70	945
STANISLAUS	122	18	546	82	668
SUTTER	36	22	126	78	162
TEHAMA*	0	0	0	0	0
TRINITY	11	35	20	65	31
TULARE	188	45	228	55	416
TUOLUMNE	34	47	38	53	72
VENTURA	145	25	442	75	587
YOLO	60	28	153	72	213
YUBA	30	30	70	70	100
TOTAL	<u>16,876</u>	25	<u>51,800</u>	75	<u>68,676</u>

*These counties did not have any State Department of Education child care contracts at the time of this survey.



CALIFORNIA STATE DEPARTMENT OF EDUCATION

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Bill Honig

Superintendent

of Public Instruction

February 18, 1987

Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

RE: P-639

Dear Mr. Hayes:

Thank you for the opportunity to review the draft report titled "Letter Concerning the State Department of Education's Verification of AFDC Enrollment in State Child Care Programs." Particularly helpful was the opportunity to sit down with your staff as a part of this review, and reach a mutual understanding regarding the factual statements and terminology. We make the following comments and suggestions regarding the report.

The point-in-time study conducted last September was to establish a benchmark for AFDC participation. The data on AFDC participation will provide a baseline from which to measure future surveys of AFDC participation levels. As AFDC participation falls below the plateau established, GAIN participants will have priority and will be admitted from the deferral lists to the Department of Education subsidized programs.

We appreciate that you have acknowledged in the report the differing estimates of the Department of Finance (\$31 million) and this Department (\$2.1 million) of the maximum federal reimbursement to be expected in 1986-87. The Department of Finance estimate is based on all AFDC recipients participating in the GAIN program while the Department estimate does not include that presumption and takes into account the phase-in of the program.

As a result of a meeting among staff of this Department, the Department of Social Services and your staff, we have gone beyond the mandate for AFDC data collection and are reviewing sub-categories of AFDC participation. As indicated in the exit conference, we have already implemented the suggestion and will collect "under 6" and "over 6" counts in the March 1987 data collection effort.

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Although discussed with your staff as a major concern of the Department, the methodology of measuring GAIN's displacement of the current working poor populace in this Department's subsidized centers is not addressed.* Identifying a former GAIN graduate who has joined the ranks of the working poor will be a formidable task. The February study by the California Child Care Resource and Referral Network will not provide this information. This Department has submitted amendments to the 1987 budget bill which stress this concern; hopefully these will be adopted.

If you have questions regarding these comments, please contact Bart Aspling, Manager, Management Review, at 2-7756.

Sincerely,

A handwritten signature in dark ink, appearing to read 'William D. Dawson', with a long horizontal flourish extending to the right.

William D. Dawson
Executive Deputy Superintendent

*Auditor General's Comment: This type of study cannot be completed until the GAIN program has been implemented statewide, which will take at least two years.